

PELLA COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2007

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PELLA COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education
(Before September, 2006 Election)

Ivan Vos	President	2008
Myron Linn	Vice President	2006
Joan Corbin	Board Member	2007
Marv Van Wyk	Board Member	2007
Laurie Fetterman	Board Member	2008

Board of Education
(After September, 2006 Election)

Ivan Vos	President	2008
Myron Linn	Vice President	2009
Joan Corbin	Board Member	2007
Marv Van Wyk	Board Member	2007
Laurie Fetterman	Board Member	2008

School Officials

Mark Wittmer	Superintendent	2007
Jon E. Miller	District Secretary/Treasurer	2007
Ron Peeler	Attorney	Indefinite



Independent Auditor's Report

To the Board of Education
Pella Community School District
Pella, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pella Community School District, Pella, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pella Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 5, 2007 on our consideration of Pella Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 15 and 44 through 45 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pella Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

November 5, 2007

Management Discussion and Analysis

The Pella Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- The September, 2005 enrollment count showed an increase of 14.8 students. This resulted in new money of \$486,856 for 2006-2007, which was an increase of 4.73%.
- General Fund revenues for FY07 were \$15,513,431 compared to \$14,902,199 for FY06. This was an increase of \$611,232, or 4.1%.
- General Fund expenditures for FY07 were \$15,615,853 compared to \$14,858,571 for FY06. This was an increase of \$757,282, or 5.1%. Additional expenditures included a 5.32% total compensation package to staff members, along with additional special education staffing required to meet the needs of our students.
- The District's General Fund undesignated, unreserved fund balance for FY07 was \$1,478,790 compared to \$1,577,301 for FY06. This is a decrease of \$98,511.
- The Financial Solvency Ratio is an accepted measure of the district's financial health and is calculated by taking the undesignated, unreserved fund balance divided by the total revenues. This ratio decreased from 10.6% in FY06 to 9.5% in FY07. The District attempts to target a solvency ratio of 10%.
- Interest income continues to improve. General Fund interest income for FY07 was \$207,302 compared to \$168,247 for FY06 and \$73,682 for FY05.
- The District ended the FY07 year with a negative special education balance of \$174,003. The prior year positive balance of \$87,168 will be used against this, leaving a net deficit of \$86,835.
- The District is currently involved in several significant construction projects. A new \$10 million dollar elementary school is being completed and scheduled to open for the 2007-2008 school year. An addition of \$872,000 to the High School and a \$1,210,800 addition to Jefferson Elementary are also currently in progress.
- The District sold a piece of property to the City of Pella for \$150,000 in January, 2007. Proceeds from this sale will be used toward construction costs.
- A six year comparison of the District's assessed valuations, tax increment financing and total tax rates are as follows:

Year	Assessed Valuation	Tax Increment Financing	Total Tax Rate
2006-2007	\$470,138,907	68,740,308	13.41259
2005-2006	463,535,140	66,071,157	13.52362
2004-2005	458,097,534	65,307,399	13.57896
2003-2004	477,138,783	60,053,193	13.31915
2002-2003	470,594,593	46,139,452	13.15690
2001-2002	442,301,775	31,155,430	13.66552

The assessed valuation for the 2004-2005 school year dropped due to the state imposed agriculture rollback.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

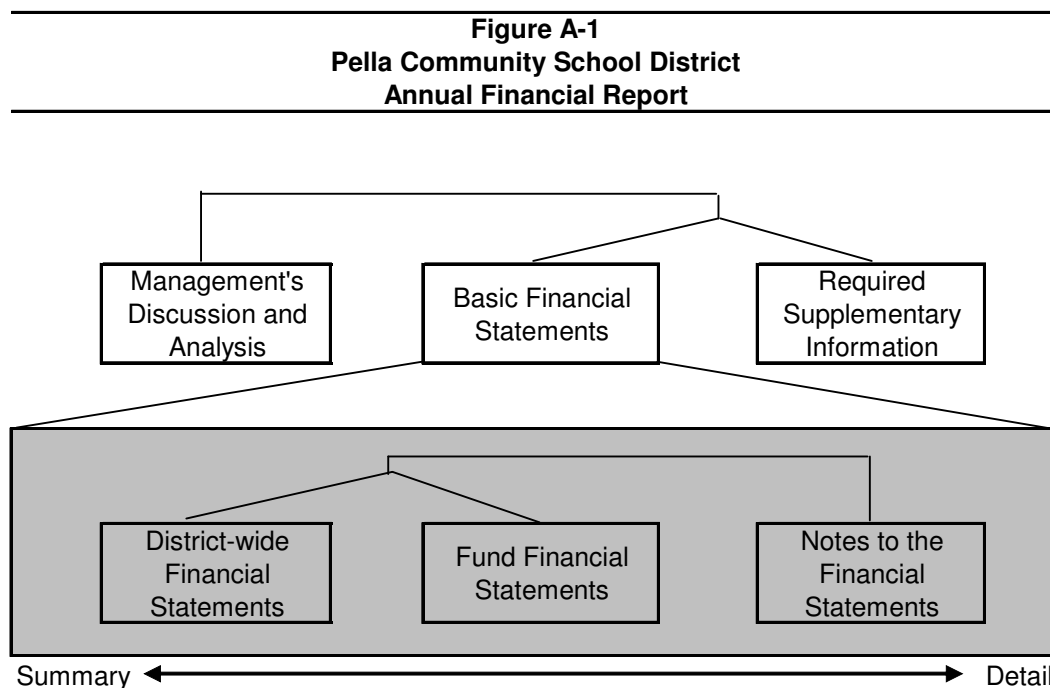


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ol style="list-style-type: none"> 1. Statement of Fiduciary Net Assets 2. Statement of Changes in Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school food service program would be included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

Fiduciary funds: The District is the trustee, or *fiduciary*, for assets that belong to others, such as a scholarship fund. The District accounts for outside donations to specific District schools for specific purposes in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets – Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2007 compared to 2006.

Figure A-3 Condensed Statement of Net Assets Years ending June 30, 2007 and 2006							
	Governmental Activities		Business type activities		Total		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-2007
Current and other assets	\$ 14,720,996	22,536,853	229,243	209,678	14,950,239	22,746,531	-34.3%
Capital assets	29,101,914	21,112,581	133,912	145,635	29,235,826	21,258,216	37.5%
Total assets	43,822,910	43,649,434	363,155	355,313	44,186,065	44,004,747	0.4%
Long-term liabilities	18,464,917	19,544,138	-	-	18,464,917	19,544,138	-5.5%
Other liabilities	8,915,717	8,902,142	13,892	15,029	8,929,609	8,917,171	0.1%
Total liabilities	27,380,634	28,446,280	13,892	15,029	27,394,526	28,461,309	-3.7%
Net assets:							
Invested in capital assets, net of related debt	12,503,562	13,118,960	133,912	145,635	12,637,474	13,264,595	-4.7%
Restricted	2,423,553	508,479	-	-	2,423,553	508,479	376.6%
Unrestricted	1,515,161	1,575,715	215,351	194,649	1,730,512	1,770,364	-2.3%
Total net assets	\$ 16,442,276	15,203,154	349,263	340,284	16,791,539	15,543,438	8.0%

The District's combined net assets increased by 8.0% from \$15,543,438 to \$16,791,539. A significant portion of this increase is due to the construction in progress of our new elementary building.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2007.

Figure A-4 Changes in Net Assets						
	Governmental activities		Business type activities		Total District	
	Year ended June 30,		Year ended June 30,		Year ended June 30,	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 1,211,132	1,186,956	686,208	678,372	1,897,340	1,865,328
Operating grants and contributions	2,088,827	1,964,242	242,178	217,248	2,331,005	2,181,490
General Revenues:						
Local taxes	8,331,502	8,227,665	-	-	8,331,502	8,227,665
State grants	7,539,314	7,104,077	-	-	7,539,314	7,104,077
Investment earnings	513,545	715,537	4,291	3,396	517,836	718,933
Other	406,306	218,635	-	-	406,306	218,635
Total revenues	20,090,626	19,417,112	932,677	899,016	21,023,303	20,316,128
Expenses:						
Program expenses:						
Instruction	11,243,927	10,634,976	-	-	11,243,927	10,634,976
Support services - students & staff	1,177,135	1,069,140	-	-	1,177,135	1,069,140
Support services - administration	1,464,212	1,284,814	-	-	1,464,212	1,284,814
Operations and maintenance	1,779,916	1,715,327	-	-	1,779,916	1,715,327
Transportation	1,371,086	1,067,778	-	-	1,371,086	1,067,778
Non-instructional activities	1,825,010	1,741,272	913,916	876,745	2,738,926	2,618,017
Total expenses	18,861,286	17,513,307	913,916	876,745	19,775,202	18,390,052
Excess of revenues over expenses before transfers	1,229,340	1,903,805	18,761	22,271	1,248,101	1,926,076
Transfers	9,782	-	(9,782)	-	-	-
Change in net assets	\$ 1,239,122	1,903,805	8,979	22,271	1,248,101	1,926,076

Governmental Activities

Property tax and unrestricted state grants account for 72.6 percent of the total governmental activities revenue. The District's expenses primarily relate to instruction and support services which account for 90.3 percent of the total expenses.

Revenues for governmental activities were \$20,100,408 and expenses were \$18,861,286, resulting in a net asset increase of \$1,239,122.

Figure A-5 presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
Instruction	\$ 11,244	8,868
Support services	5,792	5,529
Non-instructional programs	105	105
Other expenses	1,720	1,059
Totals	<u>\$ 18,861</u>	<u>15,561</u>

- The cost financed by users of the District's programs was \$1,211,132. A one-time transfer of \$9,782 was also received.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,088,827.
- The net cost of governmental activities was financed with \$7,049,872 in property taxes, \$7,539,314 in state foundation aid, \$1,281,630 in local option sales and services tax, \$513,545 in interest income and \$406,306 in other income.

Business Type Activities

Revenues of the District's business type activities were \$922,895 and expenses were \$913,916. The District's business type activities include Kid's Club, Families First and the School Nutrition Fund. The School Nutrition Fund, however, accounts for 94.2 percent of the business type activity. Revenues of these activities were comprised of \$686,208 in charges for service, \$242,178 for federal and state reimbursements and investment income of \$4,291. The net assets for business type activities increased by \$8,979. A transfer-out of \$9,782 from Kid's Club is also included. Kid's Club will no longer be included as part of the District's financial reports.

Financial Analysis of the District's Funds

As previously note, the Pella Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$5,747,393. This compares to \$13,588,831 last year, a decrease of \$7,841,438. This decrease is due to the spending down of our Capital Projects Fund as construction on our new elementary building is now underway, along with additions to our High School and Jefferson Elementary.

Governmental Fund Highlights

- The General Fund balance decreased from \$1,880,580 to \$1,778,158, a decrease of \$102,422.
- The Activity Fund balance decreased from \$197,450 to \$144,555. This decrease can be attributed to the Band Trip account balance decreasing by \$64,573 as a result of their participation in the Florida Citrus Bowl.
- The Management Fund balance increased \$117,400. The District is making a conscious effort to build this fund to the point where our long-term obligation for early retirement is fully funded.
- The Physical Plant & Equipment Levy (PPEL) Fund balance increased \$59,152, from \$185,702 to \$244,854.
- The Capital Projects Fund balance decreased \$7,864,541, from \$11,216,379 to \$3,351,838. This decrease is attributed to the construction of our new elementary building, which is now underway, as well as additions to our High School and Jefferson Elementary. Previously sold bonds are now being spent. The School Infrastructure Local Option Sales Tax generated \$1,281,630. We receive money from Jasper, Mahaska and Marion Counties. Interest income was \$300,380.
- The Debt Service Fund increased \$1,868, from \$91,241 to \$93,109. Property taxes were levied to cover the principle and interest payments of our four outstanding bond issues. School Infrastructure Local Option Sales Taxes are used to maintain a debt service levy of \$2.24/\$1,000 or less, which was the amount in place when our most recent bond issue was passed.

Proprietary Fund Highlights

The District's Proprietary Funds include the School Nutrition Fund, Kid's Club and Families First.

- The School Nutrition Fund net assets increased \$29,033, from \$316,395 to \$345,428.
- Kid's Club is an after school program operated in our Webster Elementary building. The operation of this program was transferred to Crossroads of Pella effective June 5, 2006. The remaining balance of \$9,782 was transferred to the General Fund to close this account.
- Families First is a community services oriented program. The revenues and expenditures of this program also run through the District's financial accounting records. This program is dependent upon contributions, grants and some user fees for its operation. The balance in this fund decreased \$9,947, from \$13,782 to \$3,835.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 44 and 45.

Legal Budgetary Highlights

The District's total actual receipts were \$554,651 more than the total budgeted receipts, a variance of 2.7%. Total expenditures were \$70,765 more than budgeted, a variance of .2%.

The functional areas of support services and non-instructional programs were exceeded. Non-instructional programs exceeded the budgeted amount by \$42,916. This was due to adjusting entries for commodities (\$53,362) and depreciation (\$22,814) in the Nutrition Fund. Journal entries were made on June 30, 2007 to record this activity, which increased the corresponding expenditure accounts, but in reality did not actually "spend" any cash or reduce our ending cash position. After review of each individual component of the support services area, the problem appears to be two-fold. Business support services were overspent by \$124,153. The reason for this was a change in the function coding from instruction to support services in the amount of \$126,378 for computer hardware and repair. The other area was student transportation. For some inexplicable reason the certified budget was set at \$770,000, while the line item budget for this same area was \$1,062,776. Irregardless of the reason for this gap, the budget still should have been amended as the total expenditures were \$70,765 more than budgeted. The district official responsible for the budget will monitor this much more carefully in the future.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007, the District had invested \$29,235,827, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, musical instruments, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$1,116,068.

Figure A-6 Capital Assets, net of Depreciation (expressed in thousands)							
	Business Type						Total
	Governmental Activities		activities		Total School District		Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-2007
Land	\$ 1,692	1,692	-	-	1,692	1,692	0.0%
Construction in progress	10,817	3,791	-	-	10,817	3,791	100.0%
Buildings	13,434	12,755	-	-	13,434	12,755	5.3%
Improvements other than buildings	961	492	-	-	961	492	95.3%
Furniture and equipment	2,198	2,382	134	146	2,332	2,528	-7.8%
Totals	\$ 29,102	21,112	134	146	29,236	21,258	37.5%

The original cost of the District's capital assets was \$45,010,271. Governmental funds account for \$44,234,152 with the remaining \$776,119 in the School Nutrition Fund.

The District had construction in progress of \$10,817,147 at the end of FY07. Other major improvements this year included tuckpointing at the High School, new carpet in the High School auditorium, a new wheelchair lift installed in the High School, roof replacement at Lincoln Elementary, roof replacement at the High School shop area, other minor roof repairs throughout the district, resurfacing of the tennis courts, concrete work throughout the district, water heaters were replaced at Jefferson Elementary, energy efficient ballasts and lamps have been installed at Jefferson Elementary and continued technology upgrades at all of our buildings.

Long-Term Debt

At June 30, 2007, the District had \$18,464,899 in general obligation bonds and other long-term debt. This is a decrease of \$1,079,239 from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Figure A-7			
Outstanding Long-Term Obligations			
(expressed in thousands)			
June 30,			
	2007	2006	Change
General obligation bonds	\$ 16,810	17,765	-5.4%
Revenue bonds	1,285	1,445	-11.1%
Early retirement	370	334	10.8%
Totals	<u>\$ 18,465</u>	<u>19,544</u>	<u>-5.5%</u>

The District had total outstanding bonded indebtedness at June 30, 2007 of \$16,810,000. This represents four separate bond issues. Two of these issues will be retired in FY09, one in FY13 and the most recent one in FY25. The District also had outstanding revenue bonds of \$1,285,000 at June 30, 2007 that will be retired in FY14.

The District also has a long-term debt obligation for its early retirement plan, which was \$369,899 at June 30, 2007. Retiring employees are currently allowed to receive payments until they reach age 65. This obligation is paid from the District's Management Fund.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Construction has been completed on our new Madison Elementary building. Students occupied this building for the start of the 2007-2008 school year. Building construction costs totaled \$10,117,044. This building houses grades PK-3. Lincoln Elementary will continue as a K-3 building, Jefferson Elementary is now a grade 4-6 building, the Middle School becomes 7th and 8th grades only and the High School continues as a 9-12 building.
- Webster Elementary, the existing building that was replaced by Madison Elementary, was sold to Central College for \$426,000. The closing date of this sale was November 13, 2007. Proceeds from this sale were used to offset construction costs associated with the new building.
- Construction is currently under way at Jefferson Elementary. This involves the addition of four classrooms and the expansion of the cafeteria area. Projected costs for this addition are \$1,210,800.
- The District will soon be considering another addition to the High School for the construction of two to three additional classrooms.
- A new Super Wal-Mart opened in Pella this past spring. Additional retail space has also been constructed in this area. We would expect this to have a positive impact on our one-cent local option sales tax.
- Enrollment growth from September, 2006 resulted in a significant amount of new money. This money, combined with a first time levy of \$152,000 for at-risk, resulted in an increase of 11.88 FTE instructional positions for the 2007-2008 school year. Support staff positions were also increased due to the additional square footage added with the construction of the new elementary building.

- We now know that our September, 2007 enrollment increased by 6.5 students. These students will provide funding for the 2008-2009 school year. This enrollment growth should provide for a 4.3% increase in new money available to the district for 2008-2009.
- One item of concern is the fact that the fund equity position of our General Fund decreased by \$102,422. While this decrease can be attributed to our special education deficit of \$174,003, the district will have to address this issue in the immediate future.
- The District's transportation fleet remains in good shape overall. Each year, either two busses or one bus and a support vehicle are purchased to keep the fleet updated. The General Fund has been the source of revenue for these purchases.
- Pella is home to the corporate headquarters of Pella Corporation and Vermeer Manufacturing. Both companies seem to be performing well and the general economy of Pella continues to be strong. The property tax base remains strong and housing starts have been good. There may be some concern about the current downturn in the housing industry in regard to Pella Corporation, but nothing evident at this point in time.
- The Pella Community School District is very unique in that it does not have a collective bargaining agreement with its teachers. There continues to be a very amicable relationship between management and labor.
- Two major developments for Pella are currently in the planning stages. One is The Point at Red Rock and the other is Earthpark. Earthpark projections estimate 500 one-time construction jobs, 1,000 indirect construction jobs and 150 full-time equivalent permanent jobs. The economic impact for the area is estimated to be 130 million annually. The Point at Red Rock is a proposed development that includes expansion of the current harbor and marina to 400 slips, a water park with a 300+ room hotel, resort hotel and convention center and six, 10 story condominium units. Should these two projects become reality, the increased assessed valuations, increased sales tax receipts and increased jobs will have far reaching implications for both the City of Pella and the Pella Community School District. While the possibilities of these two projects are very exciting, city and school officials remain cautiously optimistic.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jon E. Miller, Board Secretary / Business Manager, Pella Community School District, 210 E. University, P.O. Box 468, Pella, Iowa, 50219.

PELLA COMMUNITY SCHOOL DISTRICT

Basic Financial Statements

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2007

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents			
Revenue bond reserve	\$ 175,000	-	175,000
Other	7,038,405	201,724	7,240,129
Receivables:			
Property tax:			
Delinquent	54,006	-	54,006
Succeeding year	6,862,285	-	6,862,285
Accounts	3,921	-	3,921
Due from other governments	447,796	-	447,796
Inventories	27,943	23,089	51,032
Prepaid expense	111,640	4,430	116,070
Capital assets, net of accumulated depreciation (note 4)	29,101,914	133,912	29,235,826
Total assets	43,822,910	363,155	44,186,065
Liabilities			
Accounts payable	855,267	-	855,267
Salaries and benefits payable	1,132,783	13,892	1,146,675
Accrued interest payable	65,400	-	65,400
Deferred revenue:			
Succeeding year property tax	6,862,285	-	6,862,285
Long-term liabilities (note 5):			
Portion due within one year:			
General obligation bonds payable	1,005,000	-	1,005,000
Revenue bonds payable	165,000	-	165,000
Early retirement	123,268	-	123,268
Portion due after one year:			
General obligation bonds payable	15,805,000	-	15,805,000
Revenue bonds payable	1,120,000	-	1,120,000
Early retirement	246,631	-	246,631
Total liabilities	27,380,634	13,892	27,394,526
Net assets			
Invested in capital assets, net of related debt	12,503,562	133,912	12,637,474
Restricted for:			
Physical plant and equipment levy	244,854	-	244,854
Other special revenue	144,555	-	144,555
Capital projects	1,855,190	-	1,855,190
Debt service	27,709	-	27,709
Other	151,245	-	151,245
Unrestricted	1,515,161	215,351	1,730,512
Total net assets	\$ 16,442,276	349,263	16,791,539

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

	Program Revenues		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 7,253,910	397,063	704,538
Special instruction	2,028,209	312,159	413,184
Other instruction	1,961,808	495,646	53,262
	<u>11,243,927</u>	<u>1,204,868</u>	<u>1,170,984</u>
Support Service:			
Student services	304,341	-	-
Instructional staff services	872,794	-	-
Administration services	1,464,212	-	-
Operating and maintenance of plant services	1,779,916	6,264	257,355
Transportation services	1,371,086	-	-
	<u>5,792,349</u>	<u>6,264</u>	<u>257,355</u>
Non-instructional programs	<u>104,864</u>	-	-
Other expenditures:			
Facilities acquisition	171,511	-	-
Long-term debt interest	888,147	-	-
AEA flowthrough	660,488	-	660,488
	<u>1,720,146</u>	-	<u>660,488</u>
Total governmental activities	18,861,286	1,211,132	2,088,827
Business type activities:			
Non-instructional programs:			
Community daycare	325	-	-
Community services	52,344	42,397	-
Nutrition services	861,247	643,811	242,178
Total business type activities	<u>913,916</u>	<u>686,208</u>	<u>242,178</u>
Total primary government	<u>\$ 19,775,202</u>	<u>1,897,340</u>	<u>2,331,005</u>

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(6,152,309)	-	(6,152,309)
(1,302,866)	-	(1,302,866)
(1,412,900)	-	(1,412,900)
(8,868,075)	-	(8,868,075)
(304,341)	-	(304,341)
(872,794)	-	(872,794)
(1,464,212)	-	(1,464,212)
(1,516,297)	-	(1,516,297)
(1,371,086)	-	(1,371,086)
(5,528,730)	-	(5,528,730)
(104,864)	-	(104,864)
(171,511)	-	(171,511)
(888,147)	-	(888,147)
-	-	-
(1,059,658)	-	(1,059,658)
(15,561,327)	-	(15,561,327)
-	(325)	(325)
-	(9,947)	(9,947)
-	24,742	24,742
-	14,470	14,470
(15,561,327)	14,470	(15,546,857)

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

	Program Revenues		
		Charges for	Operating Grants, Contributions and Restricted Interest
	Expenses	Service	
Totals continued from previous pages	\$ 19,775,202	1,897,340	2,331,005
General Revenues:			
Property tax levied for:			
General purposes			
Debt service			
Capital outlay			
Local option sales and services tax			
Unrestricted state grants			
Unrestricted investment earnings			
Gain on sale of capital assets			
Other			
Gifts to Pella Community School District			
 Total general revenues			
 Transfers			
 Change in net assets			
 Net assets beginning of year			
 Net assets end of year			

See notes to financial statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(15,561,327)	14,470	(15,546,857)
5,344,869	-	5,344,869
1,166,185	-	1,166,185
538,818	-	538,818
1,281,630	-	1,281,630
7,539,314	-	7,539,314
513,545	4,291	517,836
145,880	-	145,880
129,830	-	129,830
130,596	-	130,596
16,790,667	4,291	16,794,958
9,782	(9,782)	-
1,239,122	8,979	1,248,101
15,203,154	340,284	15,543,438
\$ 16,442,276	349,263	16,791,539

PELLA COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
Assets					
Cash and pooled investments:					
Revenue bond reserve	\$ -	-	175,000	-	175,000
Other	2,612,698	83,988	3,698,120	643,599	7,038,405
Receivables:					
Property tax:					
Current year delinquent	36,661	9,121	-	8,224	54,006
Succeeding year	4,714,496	1,172,183	-	975,606	6,862,285
Accounts	3,921	-	-	-	3,921
Due from other governments	318,809	-	128,987	-	447,796
Inventories	27,943	-	-	-	27,943
Prepaid expenses	111,640	-	-	-	111,640
Total assets	\$ 7,826,168	1,265,292	4,002,107	1,627,429	14,720,996
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 200,731	-	650,269	4,267	855,267
Salaries and benefits payable	1,132,783	-	-	-	1,132,783
Deferred revenue:					
Succeeding year property tax	4,714,496	1,172,183	-	975,606	6,862,285
Early retirement payable	-	-	-	123,268	123,268
Total liabilities	6,048,010	1,172,183	650,269	1,103,141	8,973,603
Fund balances:					
Reserved for:					
Inventories	27,943	-	-	-	27,943
Prepaid expense	111,640	-	-	-	111,640
State grants	11,662	-	-	-	11,662
Debt service	-	93,109	-	-	93,109
Unreserved:					
Designated for special purposes by the Board	150,000	-	-	-	150,000
Undesignated	1,476,913	-	3,351,838	524,288	5,353,039
Total fund balances	1,778,158	93,109	3,351,838	524,288	5,747,393
Total liabilities and fund balances	\$ 7,826,168	1,265,292	4,002,107	1,627,429	14,720,996

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2007

Total fund balances of governmental funds (Exhibit C) \$ 5,747,393

***Amounts reported for governmental activities in the
statement of net assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 29,101,914

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. (65,400)

Long-term liabilities, including bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. (18,341,631)

Net assets of governmental activities (Exhibit A) \$ 16,442,276

See notes to financial statements.

Exhibit E

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year ended June 30, 2007

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
Revenues:					
Local sources:					
Local tax	\$ 4,869,679	1,166,185	1,281,630	1,014,008	8,331,502
Tuition	623,795	-	-	-	623,795
Other	378,974	2,000	300,380	676,913	1,358,267
Intermediate sources	37,523	-	-	-	37,523
State sources	9,167,720	498	-	458	9,168,676
Federal sources	424,983	-	-	-	424,983
Total revenues	15,502,674	1,168,683	1,582,010	1,691,379	19,944,746
Expenditures:					
Current:					
Instruction:					
Regular instruction	6,650,138	-	-	179,884	6,830,022
Special instruction	2,028,208	-	-	-	2,028,208
Other instruction	1,259,942	-	-	701,866	1,961,808
	9,938,288	-	-	881,750	10,820,038
Support services:					
Student services	301,250	-	-	752	302,002
Instructional staff services	761,385	-	-	1,504	762,889
Administration services	1,331,225	-	-	131,554	1,462,779
Operation and maintenance of plant services	1,548,789	-	-	157,273	1,706,062
Transportation services	1,074,428	-	-	56,467	1,130,895
	5,017,077	-	-	347,550	5,364,627
Other expenditures:					
Facilities acquisition	-	-	8,756,425	338,422	9,094,847
Long-term debt:					
Principal	-	1,115,000	-	-	1,115,000
Interest and fiscal charges	-	891,941	-	-	891,941
AEA flowthrough	660,488	-	-	-	660,488
	660,488	2,006,941	8,756,425	338,422	11,762,276
Total expenditures	15,615,853	2,006,941	8,756,425	1,567,722	27,946,941
Excess (deficiency) of revenues over (under) expenditures	(113,179)	(838,258)	(7,174,415)	123,657	(8,002,195)

Exhibit E

PELLA COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUNDS
 Year ended June 30, 2007

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
Other financing sources (uses):					
Operating transfers in	9,782	840,126	150,000	-	999,908
Operating transfers out	-	-	(840,126)	(150,000)	(990,126)
Sale of capital assets	975	-	-	150,000	150,975
Total other financing sources (uses)	10,757	840,126	(690,126)	-	160,757
Net change in fund balances	(102,422)	1,868	(7,864,541)	123,657	(7,841,438)
Fund balances beginning of year	1,880,580	91,241	11,216,379	400,631	13,588,831
Fund balances end of year	\$ 1,778,158	93,109	3,351,838	524,288	5,747,393

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year ended June 30, 2007

Net change in fund balances - total governmental funds (Exhibit E) \$ (7,841,438)

***Amounts reported for governmental activities in the
 statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 9,110,496	
Gain on disposal of capital assets	145,880	
Proceeds from sale of capital assets	(150,975)	
Depreciation expense	<u>(1,116,068)</u>	7,989,333

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

1,115,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

3,794

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement

(27,567)

Change in net assets of governmental activities (Exhibit B)

\$ 1,239,122

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2007

	<u>Enterprise Funds</u>
Assets	
Cash and investments	\$ 201,724
Inventories	23,089
Prepaid expense	4,430
Property and equipment:	
Machinery and equipment	776,118
Accumulated depreciation	<u>(642,206)</u>
Total assets	<u>363,155</u>
Liabilities	
Salaries and benefits payable	<u>13,892</u>
Total liabilities	<u>13,892</u>
Net Assets	
Invested in capital assets, net of related debt	133,912
Unrestricted	<u>215,351</u>
Total net assets	<u><u>\$ 349,263</u></u>

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2007

	<u>Enterprise Funds</u>
Operating revenue:	
Local sources:	
Operating revenues	<u>\$ 686,208</u>
Operating expenses:	
Non-instructional programs:	
Community service operations:	
Other	52,669
Food service operations:	
Depreciation	22,814
Other	838,433
Total operating expenses	<u>913,916</u>
Operating loss	<u>(227,708)</u>
Non-operating revenue:	
Local sources	4,291
State sources	10,193
Federal sources	231,985
Total non-operating revenue	<u>246,469</u>
Income before transfers	18,761
Transfers	<u>(9,782)</u>
Change in net assets	8,979
Net assets beginning of year	<u>340,284</u>
Net assets end of year	<u><u>\$ 349,263</u></u>

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE
Year Ended June 30, 2007

	Enterprise Funds
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 643,811
Cash received from daycare service tuition and fees	42,397
Cash payments to employees for services	(449,386)
Cash payments to suppliers for goods or services	(394,302)
Net cash used by operating activities	<u>(157,480)</u>
Cash flows from non-capital financing activities:	
State grants received	10,193
Federal grants received	178,623
Transfer to other funds	(9,782)
Net cash provided by non-capital financing activities	<u>179,034</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(11,091)</u>
Cash flows from investing activities:	
Proceeds from sale of investments	40,000
Interest on investments	4,291
Net cash provided by investing activities	<u>44,291</u>
Net increase in cash and cash equivalents	54,754
Cash and cash equivalents at beginning of year	<u>86,970</u>
Cash and cash equivalents at end of year	<u><u>\$ 141,724</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (227,708)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities	53,362
Depreciation	22,814
(Increase) in inventories	(556)
(Increase) in other assets	(4,255)
(Decrease) in accounts payable	(467)
(Decrease) in salaries and benefits payable	(670)
Net cash used by operating activities	<u><u>\$ (157,480)</u></u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash and investments	\$ 201,724
Less items not meeting definition of cash equivalents:	
Certificates of deposit	<u>(60,000)</u>
Cash and cash equivalents at year end	<u><u>\$ 141,724</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received federal commodities valued at \$53,362.

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2007

	Private Purpose Trust	Expendable Trust
	Scholarship	Special Projects
Assets		
Cash and pooled investments	\$ 51,888	61,314
Total assets	51,888	61,314
Net assets		
Held in trust for scholarships and special projects	51,888	61,314
Total net assets	\$ 51,888	61,314

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
Year Ended June 30, 2007

	Private Purpose Trust	Expendable Trust
	Scholarship	Special Projects
Additions:		
Local sources:		
Contributions and donations	\$ -	22,502
Interest	1,859	-
Total revenues	1,859	22,502
Deductions:		
Instruction:		
Services	-	200
Supplies	-	21,021
Other	1,400	-
Total expenditures	1,400	21,221
Change in net assets	459	1,281
Net assets beginning of year	51,429	60,033
Net assets end of year	\$ 51,888	61,314

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(1) Summary of Significant Accounting Policies

Pella Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. The geographic area served includes the City of Pella, Iowa. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Pella Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Pella Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marion County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds consist of three Enterprise funds: School Nutrition, Kids Club, and Families First. These funds are used to account for the food service operations, child after-school operations and community-family service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Expendable Trust Fund is used to account for assets held by the District for special projects of the District with funds given by individuals, private organizations and other governments.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expense when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end. Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the support services and non-instructional services functions exceeded the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 840,126
General Fund	Proprietary: Daycare Enterprise	9,782
Capital Projects	Special Revenue:	
	Physical Plant and Equipment Levy	150,000
		<u>\$ 999,908</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

(4) **Capital Assets**

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,691,900	-	-	1,691,900
Construction in progress	3,790,895	7,871,123	844,871	10,817,147
Total capital assets not being depreciated	5,482,795	7,871,123	844,871	12,509,047
Capital assets being depreciated:				
Buildings	19,349,563	1,155,066	-	20,504,629
Improvements other than buildings	906,340	509,741	-	1,416,081
Furniture and equipment	9,536,400	419,437	151,442	9,804,395
Total capital assets being depreciated	29,792,303	2,084,244	151,442	31,725,105
Less accumulated depreciation for:				
Buildings	6,594,101	476,675	-	7,070,776
Improvements other than buildings	413,979	41,361	-	455,340
Furniture and equipment	7,154,437	598,032	146,347	7,606,122
Total accumulated depreciation	14,162,517	1,116,068	146,347	15,132,238
Total capital assets being depreciated, net	15,629,786	968,176	5,095	16,592,867
Governmental activities capital assets, net	\$ 21,112,581	8,839,299	849,966	29,101,914
Business type activities:				
Furniture and equipment	\$ 775,922	11,091	10,895	776,118
Less accumulated depreciation	630,287	22,814	10,895	642,206
Business type activities capital assets, net	\$ 145,635	(11,723)	-	133,912
Depreciation expense was charged by the District as follows:				
Governmental activities:				
Instruction:				
Regular				\$ 548,156
Support services:				
Student support				2,339
Instructional staff				37,979
Administration				1,433
Operation and maintenance of plant				55,014
Transportation				366,283
Non-instructional programs				104,864
Total governmental activities depreciation expense				<u>\$ 1,116,068</u>
Business type activities:				
Food services				<u>\$ 22,814</u>

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

(5) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 17,765,000	-	955,000	16,810,000	1,005,000
Revenue bonds	1,445,000	-	160,000	1,285,000	165,000
Early retirement	334,138	150,835	115,074	369,899	123,268
	<u>\$ 19,544,138</u>	<u>150,835</u>	<u>1,230,074</u>	<u>18,464,899</u>	<u>1,293,268</u>

General Obligation Bonds

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Bond Issue of June 1, 1997				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2008	5.25%	\$ 420,000	154,358	574,358
2009	5.30%	440,000	132,307	572,307
2010	5.38%	465,000	108,988	573,988
2011	5.38%	490,000	83,994	573,994
2012	5.38%	515,000	57,656	572,656
2013	5.50%	545,000	29,975	574,975
Subtotal		<u>2,875,000</u>	<u>567,278</u>	<u>3,442,278</u>

Bond Issue of June 1, 2005				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2008	3.50%	\$ 40,000	578,825	618,825
2009	3.50%	50,000	577,425	627,425
2010	4.00%	510,000	575,675	1,085,675
2011	4.00%	535,000	555,275	1,090,275
2012	4.00%	560,000	533,875	1,093,875
2013	4.00%	590,000	511,475	1,101,475
2014	4.00%	680,000	487,875	1,167,875
2015	4.00%	715,000	460,675	1,175,675
2016	4.00%	750,000	432,075	1,182,075
2017	4.50%	775,000	402,075	1,177,075
2018	4.50%	810,000	367,200	1,177,200
2019	4.50%	850,000	330,750	1,180,750
2020	5.00%	885,000	292,500	1,177,500
2021	5.00%	925,000	248,250	1,173,250
2022	5.00%	970,000	202,000	1,172,000
2023	5.00%	1,015,000	153,500	1,168,500
2024	5.00%	1,065,000	102,750	1,167,750
2025	4.50%	1,100,000	49,500	1,149,500
Subtotal		<u>12,825,000</u>	<u>6,861,700</u>	<u>19,686,700</u>

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Refunding Bond Issue of November 1, 1997				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2008	4.80%	\$ 235,000	23,040	258,040
2009	4.90%	240,000	11,760	251,760
	Subtotal	475,000	34,800	509,800

Refunding Bond Issue of March 1, 1998				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2008	4.45%	\$ 310,000	28,583	338,583
2009	4.55%	325,000	14,787	339,787
	Subtotal	635,000	43,370	678,370

Total				
Year ending June 30,		Principal	Interest	Total
2008		\$ 1,005,000	784,806	1,789,806
2009		1,055,000	736,279	1,791,279
2010		975,000	684,663	1,659,663
2011		1,025,000	639,269	1,664,269
2012		1,075,000	591,531	1,666,531
2013		1,135,000	541,450	1,676,450
2014		680,000	487,875	1,167,875
2015		715,000	460,675	1,175,675
2016		750,000	432,075	1,182,075
2017		775,000	402,075	1,177,075
2018		810,000	367,200	1,177,200
2019		850,000	330,750	1,180,750
2020		885,000	292,500	1,177,500
2021		925,000	248,250	1,173,250
2022		970,000	202,000	1,172,000
2023		1,015,000	153,500	1,168,500
2024		1,065,000	102,750	1,167,750
2025		1,100,000	49,500	1,149,500
Total		\$ 16,810,000	7,507,148	24,317,148

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Revenue Bonds

Details of the District's June 30, 2007 local option sales and services tax revenue bonded indebtedness are as follows:

Bond Issue of June 1, 1997				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2008	3.25%	\$ 165,000	46,325	211,325
2009	3.50%	170,000	40,963	210,963
2010	3.60%	175,000	35,012	210,012
2011	3.60%	180,000	28,713	208,713
2012	3.60%	190,000	22,232	212,232
2013	3.75%	200,000	15,393	215,393
2014	3.85%	205,000	7,892	212,892
Total		\$ 1,285,000	196,530	1,481,530

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$175,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

The total amount of interest costs incurred and charged to expense for the fiscal year ended June 30, 2007 was \$886,047.

(6) Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

The early retirement incentive for each eligible employee is based on a percentage of the employee's final year's salary. The percentage used for calculation is based on years of service to the District. The percentage varies from 38% for 10 years of service to 57% for 15 or more years of experience.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Early retirement benefits are paid monthly over the number of months until the employee turns 65. If the retiree is of an age that these monthly payments would exceed 36 months, the retiree may request payment over 36 months.

At June 30, 2007, the District has obligations to 21 participants with a total liability of \$369,899. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$115,074.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006, and 2005. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$598,773, \$567,684, and \$540,101, respectively, equal to the required contributions for each year.

(8) Risk Management

Pella Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$660,488 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Construction Commitment

The District has entered into three construction contracts totaling \$12,652,495. As of June 30, 2007 costs of \$10,817,147 had been incurred. The balance of \$1,835,348 remaining at June 30, 2007 will be paid as work progresses.

Project	Contract Amount	Costs Incurred
Elementary School	\$ 11,325,235	10,638,360
Jefferson Addition	1,210,800	132,040
Lincoln Roof	79,960	39,980
High School Driveway	36,500	6,767
	<u>\$ 12,652,495</u>	<u>10,817,147</u>

Required Supplementary Information

PELLA COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN BALANCES - BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Original and Final Budget	Final to Actual Variance- Positive (Negative)
Revenues:					
Local sources	\$ 10,313,564	690,499	11,004,063	10,655,987	348,076
Intermediate sources	37,523	-	37,523	18,000	19,523
State sources	9,168,676	10,193	9,178,869	9,027,285	151,584
Federal sources	424,983	231,985	656,968	621,500	35,468
Total revenues	19,944,746	932,677	20,877,423	20,322,772	554,651
Expenditures:					
Instruction	10,820,038	-	10,820,038	11,021,500	201,462
Support services	5,364,627	-	5,364,627	4,980,000	(384,627)
Noninstructional programs	-	913,916	913,916	871,000	(42,916)
Other expenditures	11,762,276	-	11,762,276	11,917,592	155,316
Total expenditures	27,946,941	913,916	28,860,857	28,790,092	(70,765)
Excess (deficiency) of revenues over (under) expenditures	(8,002,195)	18,761	(7,983,434)	(8,467,320)	483,886
Other financing sources (uses), net	160,757	(9,782)	150,975	1,000	149,975
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(7,841,438)	8,979	(7,832,459)	(8,466,320)	633,861
Balances beginning of year	13,588,831	340,284	13,929,115	14,595,110	(665,995)
Balances end of year	\$ 5,747,393	349,263	6,096,656	6,128,790	(32,134)

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
Year ended June 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures exceeded the amounts budgeted in the support services and non-instructional services functions.

Other Supplementary Information

PELLA COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
June 30, 2007

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ 254,137	144,555	244,907	643,599
Receivables:				
Property tax:				
Current year delinquent	4,010	-	4,214	8,224
Succeeding year	424,999	-	550,607	975,606
Total assets	\$ 683,146	144,555	799,728	1,627,429
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	-	4,267	4,267
Early retirement	123,268	-	-	123,268
Deferred revenue:				
Succeeding year property tax	424,999	-	550,607	975,606
Total liabilities	548,267	-	554,874	1,103,141
Fund balances:				
Unreserved, undesignated	134,879	144,555	244,854	524,288
Total fund balances	134,879	144,555	244,854	524,288
Total liabilities and fund equity	\$ 683,146	144,555	799,728	1,627,429

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NON-MAJOR SPECIAL REVENUE FUNDS
 Year Ended June 30, 2007

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax:				
Property tax	\$ 467,654	-	531,359	999,013
Utility tax replacement excise tax	7,075	-	7,003	14,078
Mobile home tax	461	-	456	917
	475,190	-	538,818	1,014,008
Other local sources:				
Interest on investments	-	3,863	2,000	5,863
Student activities	-	488,797	-	488,797
Contributions and donations	-	128,596	-	128,596
Other	23,853	27,715	2,089	53,657
	23,853	648,971	4,089	676,913
	499,043	648,971	542,907	1,690,921
State sources:				
Revenue in lieu of taxes - military credit	228	-	230	458
Total revenues	499,271	648,971	543,137	1,691,379
Expenditures:				
Instruction:				
Regular instruction:				
Salaries	114,509	-	-	114,509
Benefits	65,375	-	-	65,375
Property	-	-	-	-
	179,884	-	-	179,884
Co-curricular instruction:				
Salaries	-	6,648	-	6,648
Benefits	-	544	-	544
Services	-	403,986	-	403,986
Supplies	-	279,595	-	279,595
Property	-	8,625	-	8,625
Other	-	2,468	-	2,468
	-	701,866	-	701,866
Total instruction	179,884	701,866	-	881,750
Support Services:				
Student support services:				
Benefits	752	-	-	752
Instructional staff support services:				
Benefits	1,504	-	-	1,504

PELLA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NON-MAJOR SPECIAL REVENUE FUNDS
 Year Ended June 30, 2007

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Expenditures (continued):				
Support Services (continued):				
General administration:				
Benefits	376	-	-	376
Services	1,792	-	-	1,792
	2,168	-	-	2,168
Building administration:				
Benefits	2,444	-	-	2,444
Business administration:				
Benefits	564	-	-	564
Administration technology services:				
Services	-	-	31,196	31,196
Supplies	-	-	28,214	28,214
Property	-	-	66,968	66,968
	-	-	126,378	126,378
Plant operation and maintenance:				
Benefits	40,524	-	-	40,524
Services	97,564	-	-	97,564
Property	-	-	19,185	19,185
	138,088	-	19,185	157,273
Student transportation:				
Benefits	23,268	-	-	23,268
Services	33,199	-	-	33,199
	56,467	-	-	56,467
Total support services	201,987	-	145,563	347,550
Other expenditures:				
Facilities acquisition and construction:				
Services	-	-	338,422	338,422
Total expenditures	381,871	701,866	483,985	1,567,722

Schedule 2

PELLA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NON-MAJOR SPECIAL REVENUE FUNDS
 Year Ended June 30, 2007

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Excess (deficiency) of revenues over (under) expenditures	117,400	(52,895)	59,152	123,657
Other financing sources (uses):				
Operating transfers out	-	-	(150,000)	(150,000)
Sale of capital assets	-	-	150,000	150,000
Total other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	117,400	(52,895)	59,152	123,657
Fund balances beginning of year	17,479	197,450	185,702	400,631
Fund balances end of year	\$ 134,879	144,555	244,854	524,288

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2007

	Enterprise Funds			
	Community Daycare	Community Services	Nutrition Services	Total
Assets				
Cash and investments	\$ -	3,835	197,889	201,724
Inventories	-	-	23,089	23,089
Prepaid expense	-	-	4,430	4,430
Property and equipment:				
Machinery and equipment	-	-	776,118	776,118
Accumulated depreciation	-	-	(642,206)	(642,206)
Total assets	-	3,835	359,320	363,155
Liabilities				
Accounts payable	-	-	-	-
Salaries and benefits payable	-	-	13,892	13,892
Total liabilities	-	-	13,892	13,892
Net Assets				
Invested in capital assets, net of related debt	-	-	133,912	133,912
Unrestricted	-	3,835	211,516	215,351
Total net assets	\$ -	3,835	345,428	349,263

See accompanying independent auditor's report.

Schedule 4

PELLA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN
 FUND NET ASSETS - PROPRIETARY FUNDS
 Year Ended June 30, 2007

	Enterprise Funds			
	Community Daycare	Community Services	Nutrition Services	Total
Operating revenues:				
Local sources:				
Other local sources:				
Community service tuition and fees	\$ -	-	-	-
Sale of lunches and breakfasts	-	-	640,621	640,621
Contributions and donations	-	25,415	-	25,415
Miscellaneous	-	16,982	3,190	20,172
Total operating revenues	-	42,397	643,811	686,208
Operating expenses:				
Non-instructional programs:				
Community service operations:				
Salaries	-	30,433	-	30,433
Benefits	-	4,079	-	4,079
Services	-	3,336	-	3,336
Supplies	325	14,496	-	14,821
	325	52,344	-	52,669
Food services operations:				
Salaries	-	-	311,047	311,047
Benefits	-	-	103,157	103,157
Services	-	-	13,248	13,248
Supplies	-	-	410,336	410,336
Other	-	-	645	645
Depreciation	-	-	22,814	22,814
	-	-	861,247	861,247
Total operating expenses	325	52,344	861,247	913,916
Operating loss	(325)	(9,947)	(217,436)	(227,708)
Non-operating revenues:				
Interest income	-	-	4,291	4,291
State lunch and breakfast program claims	-	-	10,193	10,193
National School Lunch Program	-	-	162,335	162,335
School Breakfast Program	-	-	16,288	16,288
Food distribution	-	-	53,362	53,362
Total non-operating revenues	-	-	246,469	246,469
Income (loss) before transfers	(325)	(9,947)	29,033	18,761
Transfer out	(9,782)	-	-	(9,782)
Change in net assets	(10,107)	(9,947)	29,033	8,979
Net assets beginning of year	10,107	13,782	316,395	340,284
Net assets end of year	\$ -	3,835	345,428	349,263

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2007

	Enterprise Funds			
	Community Daycare	Community Services	Nutrition Services	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ -	-	643,811	643,811
Cash received from service tuition, fees and other sources	-	42,397	-	42,397
Cash payments to employees for services	-	(34,512)	(414,874)	(449,386)
Cash payments to suppliers for goods or services	(325)	(17,912)	(376,065)	(394,302)
Net cash provided (used) by operating activities	(325)	(10,027)	(147,128)	(157,480)
Cash flows from non-capital financing activities:				
State grants received	-	-	10,193	10,193
Federal grants received	-	-	178,623	178,623
Transfer to other funds	(9,782)	-	-	(9,782)
Net cash provided (used) by operating activities	(9,782)	-	188,816	179,034
Cash flows from capital and related financing activities:				
Acquisition of capital assets	-	-	(11,091)	(11,091)
Cash flows from investing activities:				
Proceeds from sale of investments	-	-	40,000	40,000
Interest on investments	-	-	4,291	4,291
	-	-	44,291	44,291
Net increase (decrease) in cash and cash equivalents	(10,107)	(10,027)	74,888	54,754
Cash and cash equivalents at beginning of year	10,107	13,862	63,001	86,970
Cash and cash equivalents at end of year	\$ -	3,835	137,889	141,724
Reconciliation of operating loss to net cash used by operating activities:				
Operating loss	\$ (325)	(9,947)	(217,436)	(227,708)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Commodities	-	-	53,362	53,362
Depreciation	-	-	22,814	22,814
(Increase) in inventories	-	-	(556)	(556)
(Increase) in prepaid expense	-	-	(4,255)	(4,255)
(Decrease) in accounts payable	-	(80)	(387)	(467)
(Decrease) in salaries and benefits payable	-	-	(670)	(670)
Net cash used by operating activities	\$ (325)	(10,027)	(147,128)	(157,480)

PELLA COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2007

Enterprise Funds			
Community Daycare	Community Services	Nutrition Services	Total

**Reconciliation of cash and cash equivalents at
year end to specific assets included on Combined
Balance Sheet:**

Current assets:

Cash and investments	\$	-	3,835	197,889	201,724
Less items not meeting definition of cash equivalents:					
Certificates of deposit		-	-	(60,000)	(60,000)
Cash and cash equivalents at year end	\$	-	3,835	137,889	141,724

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received federal commodities valued at \$53,362.

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN INDIVIDUAL STUDENT ACTIVITY ACCOUNTS
Year ended June 30, 2007

Account	Balance Beginning of Year	Transfers In (Out)	Revenues	Expendi- tures	Balance End of Year
Booster/PTO Concessions	\$ 2,508	200	46,944	46,737	2,915
HS Drama	-	-	1,786	1,671	115
HS Speech	1,586	150	637	1,282	1,091
HS Debate	66	50	-	100	16
HS Vocal	5,146	300	16,049	20,250	1,245
HS Instr. Music	3,737	3,252	11,058	12,275	5,772
HS Instr. Music Fundraiser	86,845	400	118,668	183,241	22,672
Orchestra	1,171	100	280	730	821
Vocal Music Trip Account	4,162	300	29,503	29,428	4,537
Band Boosters	(7,463)	-	14,004	8,440	(1,899)
Athletics	4,066	3,178	3,425	18,457	(7,788)
HS Boys Bask.	-	(4,438)	18,447	14,009	-
HS Football	-	(6,184)	21,383	15,199	-
HS Football Jerseys	8,467	-	8,737	10,743	6,461
Football Parents	942	-	7,210	6,794	1,358
HS Boys Soccer	(129)	37	8,275	8,183	-
HS Baseball	(365)	2,716	6,483	8,684	150
HS Track	-	3,393	2,583	5,976	-
HS Boys Cross Country	-	3,065	1,698	4,763	-
HS Boys Tennis	18	1,711	1,295	3,007	17
HS Boys Golf	(45)	829	233	1,017	-
HS Boys Swimming	-	(65)	65	-	-
Tennis Club	226	-	2,660	2,700	186
HS Wrestling	-	1,663	4,193	5,856	-
Wrestling Club	168	-	5,373	3,474	2,067
HS Girls Basketball	-	(8,020)	25,027	17,007	-
Girls Basketball Club	-	-	635	-	635
HS Volleyball	-	(686)	9,653	8,967	-
Volleyball Club	896	-	3,914	4,097	713
HS Girls Soccer	(386)	1,752	5,558	6,924	-
HS Softball	510	935	3,000	3,935	510
HS Girls Track	-	5,401	2,529	7,930	-
HS Girls Cross Country	-	3,176	1,171	4,347	-
HS Girls Tennis	-	444	2,278	2,722	-
HS Girls Golf	-	335	-	335	-
HS Activity Tickets	-	(18,393)	18,393	-	-
HS Miscellaneous Activity	269	-	1,142	1,119	292
Girls Soccer Club	-	-	928	364	564
Girls Track Club	645	-	6,793	2,372	5,066
Boys Soccer Club	-	-	11,533	8,634	2,899
Boys Golf Club	-	-	150	108	42
Swimming Club	131	210	700	1,041	-
Pella Connection Club	2,572	-	961	650	2,883

PELLA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN INDIVIDUAL STUDENT ACTIVITY ACCOUNTS
Year ended June 30, 2007

Account	Balance Beginning of Year	Transfers In (Out)	Revenues	Expendi- tures	Balance End of Year
HS Cheerleaders	3,684	200	8,025	6,058	5,851
HS Vending	-	(1,000)	16,166	13,761	1,405
HS Testing	2,280	-	5,787	5,277	2,790
Class of 2007	1,131	-	-	100	1,031
Class of 2008	1,996	-	3,048	4,295	749
Class of 2009	1,510	-	870	-	2,380
Class of 2010	-	-	2,385	-	2,385
Softball Concessions	1,340	-	6,111	3,992	3,459
Baseball Concessions	1,147	-	96	3,246	(2,003)
Boys Basketball Concessions	3,160	-	7,384	8,127	2,417
Girls Golf Concessions	61	-	-	-	61
Drill Team	4,386	200	27,426	30,739	1,273
FFA	6,467	300	20,172	20,766	6,173
FHA	59	-	205	-	264
Humanities	645	-	-	-	645
Interest	372	(4,000)	3,863	168	67
Technology Student Association	6,472	300	6,885	6,588	7,069
National Honor Society	396	50	-	128	318
Pep Club	356	50	-	-	406
HS PE Heart Club	950	600	2,447	2,267	1,730
French Club	1,571	-	-	-	1,571
HS Student Council	1,331	600	1,274	2,977	228
Publications	24,268	400	47,415	37,485	34,598
Craft Show-Yearbook	3,810	-	-	1,462	2,348
HS Weight Club	659	-	685	73	1,271
MS Vocal Music	882	100	1,247	1,026	1,203
MS Instr. Music	1,956	100	1,450	2,160	1,346
MS Athletics	-	2,410	-	2,410	-
MS Boys Basketball	-	1,451	2,121	3,572	-
MS Football	-	1,833	1,914	3,747	-
MS Boys Track	-	(173)	869	696	-
MS Wrestling	-	(229)	786	556	1
MS Girls Bask	-	1,815	1,537	3,352	-
MS Volleyball	-	(74)	1,618	1,544	-
MS Softball	160	1,812	107	1,919	160
MS Girls Track	-	(895)	1,681	786	-
MS Activity Tickets	-	(1,661)	1,661	-	-
MS Library/Book Fair	365	-	-	136	229
MS History Day Club	21	-	-	-	21
MS Gifted and Talented	3,081	-	3,968	6,655	394
MS Activity	621	-	19,606	17,464	2,763
MS Home Ec Resale	1,844	-	4,030	3,647	2,227
MS Language Arts Resale	267	-	-	-	267
MS Social Studies Resale	192	-	1,002	1,041	153

PELLA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN INDIVIDUAL STUDENT ACTIVITY ACCOUNTS
Year ended June 30, 2007

Account	Balance Beginning of Year	Transfers In (Out)	Revenues	Expendi- tures	Balance End of Year
MS AR Store	69	-	-	-	69
MS Student Council	2,567	-	913	1,329	2,151
Elem. Activity	19	(19)	-	-	-
Elem. PTO	35	(55)	50	-	30
Lincoln Elementary	272	-	5,181	5,084	369
Webster Elementary	155	74	4,739	4,968	-
Jefferson Elementary	455	-	8,893	8,697	651
Jefferson Recycling	695	-	-	-	695
Totals	\$ 197,450	-	648,971	701,866	144,555

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST SIX YEARS

	Modified Accrual Basis					
	2007	2006	2005	2004	2003	2002
Revenues:						
Local sources:						
Local tax	\$ 8,331,502	8,227,665	7,744,098	7,073,282	6,725,009	6,600,191
Tuition	623,795	592,952	601,419	489,605	201,329	216,030
Other	1,358,267	1,501,637	755,499	672,917	1,207,656	996,648
Intermediate sources	37,523	18,082	15,000	15,000	18,428	15,309
State sources	9,168,676	8,531,765	7,999,448	7,781,624	7,426,618	7,481,658
Federal sources	424,983	521,521	430,845	446,378	344,089	263,894
Total	<u>\$ 19,944,746</u>	<u>19,393,622</u>	<u>17,546,309</u>	<u>16,478,806</u>	<u>15,923,129</u>	<u>15,573,730</u>
Expenditures:						
Instruction:						
Regular instruction	\$ 6,830,022	6,329,880	6,275,810	6,321,718	6,025,245	6,176,546
Special instruction	2,028,208	1,781,523	2,183,808	2,062,595	1,859,024	1,706,911
Other instruction	1,961,808	1,922,355	1,207,063	1,285,721	1,483,823	1,279,078
Support services:						
Student services	302,002	306,129	325,470	499,204	484,767	444,537
Instructional staff services	762,889	809,570	794,337	677,684	628,426	624,769
Administration services	1,462,779	1,643,583	1,284,737	1,136,764	1,103,990	1,041,328
Operation and maintenance of plant services	1,706,062	1,675,658	1,489,740	1,639,083	1,383,316	1,284,975
Transportation services	1,130,895	1,028,477	693,693	699,316	553,744	603,798
Non-instructional programs	-	-	296	16,086	11,350	7,467
Other expenditures:						
Facilities acquisition	9,094,847	4,020,376	1,760,941	597,119	361,383	354,533
Long-term debt:						
Principal	1,115,000	1,070,000	995,000	805,000	770,000	935,000
Interest and other charges	891,941	931,550	386,050	368,831	403,278	450,694
AEA flowthrough	660,488	610,764	586,232	592,881	604,874	608,706
Total	<u>\$ 27,946,941</u>	<u>22,129,865</u>	<u>17,983,177</u>	<u>16,702,002</u>	<u>15,673,220</u>	<u>15,518,342</u>

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2007

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Distribution (non-cash)	10.550	FY 07	<u>\$ 53,362</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 07	16,288
National School Lunch Program	10.555	FY 07	<u>162,336</u>
			<u>178,624</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY 07	<u>171,621</u>
Services for Children with Deaf-Blindness	84.025	FY 07	<u>400</u>
Vocational Education - Basic Grants to States	84.048	FY 07	<u>38,324</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 07	<u>6,015</u>
State Grants for Innovative Programs	84.298	FY 07	<u>3,311</u>
Improving Teacher Quality State Grants	84.367	FY 07	<u>69,430</u>
Grants for State Assessments and Related Activities	84.369	FY 07	<u>14,917</u>
Area Education Agency (AEA 11):			
Special Education - Grants to States	84.027	FY 07	<u>120,965</u>
Total			<u>\$ 656,969</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Pella Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Pella Community School District

**Van Maanen
& ASSOCIATES, P.C.**

Certified Public Accountants

705 Main St.
Pella, IA 50219
641-628-3737

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of
Pella Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Pella Community School District, Pella, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents and have issued our report thereon dated November 5, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pella Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Pella Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pella Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Pella Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Pella Community School District's financial statements that is more than inconsequential will not be prevented or detected by Pella Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Pella Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pella Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Pella Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Pella Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pella Community School District and other parties to whom Pella Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Pella Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

November 5, 2007

**Van Maanen
& ASSOCIATES, P.C.**

Certified Public Accountants

705 Main St.
Pella, IA 50219
641-628-3737

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Pella Community School District:

Compliance

We have audited the compliance of Pella Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Pella Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Pella Community School District's management. Our responsibility is to express an opinion on Pella Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pella Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Pella Community School District's compliance with those requirements.

In our opinion, Pella Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Pella Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Pella Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pella Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a material weakness.

Pella Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Pella Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pella Community School District and other parties to whom Pella Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

November 5, 2007

PELLA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - Clustered programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Pella Community School District did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES

II-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, expenditures are recorded and checks are prepared by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

PELLA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2007

Part III: Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES

All programs displayed on the Schedule of Expenditures of Federal Awards:

III-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, expenditures are recorded and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-07 Certified Budget - Expenditures for the year ended June 30, 2007 exceeded the amended certified budget amounts in the support services and non-instructional services functions.

Recommendation – The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion – Response accepted.

IV-B-07 Questionable Expenditures - No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

PELLA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2007

- IV-D-07 Business Transactions - No business transactions between the District and District officials or employees were noted.
- IV-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- IV-F-07 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-G-07 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- IV-H-07 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.
- IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.